



July 21, 2023

Robert "Rob" McFadden, CFM,  
Managing Director of  
Administration and Operations,  
and Borough Council  
Borough of Lititz and  
Lititz Borough Authority  
7 South Broad Street  
Lititz, PA 17543

Dear Mr. McFadden:

We are pleased to confirm our understanding of the services we are providing for Borough of Lititz (the Borough) and Lititz Borough Authority (the Authority) for the years ending December 31, 2023, 2024 and 2025. Please read this letter carefully because it is important to both our Firm and you that you understand and accept the terms under which we have agreed to perform our services, as well as management's responsibilities under this agreement.

### **Audit Services**

We will audit the financial statements of the Borough and Authority as of and for the years ending December 31, 2023, 2024 and 2025 and the related financial statement disclosures.

Accounting standards generally accepted in the United States of America call for certain required supplementary information (RSI) to accompany the basic financial statements. The Governmental Accounting Standards Board also considers this information a necessary part of financial reporting as it provides perspective to the basic financial statements. Therefore, as part of these engagements, we will apply limited procedures to Borough's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will primarily consist of inquiries of management regarding their methods of measurement and presentation. However, we will not express an opinion or provide any assurance on this RSI as our limited procedures do not provide us with sufficient evidence to do so under our professional standards. Consequently, the financial statements we present to the Borough will include the following required RSI that will not be audited and, as such, our report will disclaim an opinion on this RSI:

- Management's discussion and analysis (Borough)
- Schedule of Receipts, Disbursements, and Changes in Fund Balances – Budget to Actual – Cash Basis – General, Highway Aid and Storm Drainage Construction Funds (Borough)
- Schedules of Employer Contributions – Pension Plans (Borough)
- Schedules of Investment Returns – Pension Plans (Borough)
- Schedule of Changes in Net Pension Liability and related Ratios – Police Pension and Municipal Employees Pension Plans
- Schedule of Changes in Total Other Postemployment Benefits Plan (OPEB) Liability and Related Ratios – Single-Employer Defined Benefit OPEB Plan
- Notes to Required Supplementary Information – Budgetary Information, Pension Plans and Single-Employer Defined Benefit OPEB Plan (Borough)

The Authority's financial statement will not include any RSI.

The objectives of our audits are the expression of opinions:

1. About whether the Borough's financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America, and to report on the fairness of the additional supplementary information referred to above when considered in relation to the financial statements taken as a whole.
2. About whether the Authority's financial statement are fairly presented, in all material respects, in conformity with the provisions of section 4.01 of the sewer capacity and service agreement among the Borough, Authority and Warwick Township Municipal Authority date July 20, 2021, with joinder by the Township of Warwick.

Our audits will be conducted in accordance with United States generally accepted auditing standards (GAAS). Our professional standards as defined by GAAS require that we plan and perform audits to obtain reasonable assurance about whether the financial statements including the disclosures, are free from material misstatement whether due to fraud or error, and are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America for the Borough, and in conformity with the provisions of section 4.01 of the sewer capacity and service agreement among the Borough, Authority and Warwick Township Municipal Authority date July 20, 2021, with joinder by the Township of Warwick for the Authority.

If our opinion is other than unmodified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or form an opinion, we may disclaim an opinion or not issue a report.

Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Our audits will involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and will include tests of the accounting records of the Borough and Authority and other procedures we consider necessary. The procedures we determine necessary will depend on our auditor's judgment and will be based, in part, on our assessment of the risks of material misstatement of the financial statements and disclosures, whether from errors, fraudulent financial reporting, misappropriations of assets or violations of laws or governmental regulations that are attributable to the Borough and Authority or to acts by management or employees acting on behalf of the Borough and Authority.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements, including disclosures. If we deem it appropriate, our procedures will also include tests of documentary evidence supporting the transactions recorded in the accounts, may include tests of the physical existence of inventories and will include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors and financial institutions. As part of our audit process, we may request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audits, we will also request certain written representations from you about the financial statements and related matters. These representations will include acknowledging our assistance with the preparation of the Borough's and Authority's financial statements, the supplementary information (Township only) and notes accompanying these documents, and that you have reviewed and approved these documents, approved their release and that you have accepted responsibility for them. In addition, we will also require written authorization from you permitting your predecessor CPA to speak openly with our Firm. By your signature below, you understand and agree that our Firm's acceptance of this engagement and the terms and conditions as specified in this letter are contingent upon receiving satisfactory responses to these inquiries.

Because of the inherent limitations of an audit, together with the inherent limitations of your system of internal control, an unavoidable risk exists that some material misstatements may not be detected by our Firm, even though our audit is properly planned and performed in accordance with GAAS. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation or the override of controls. An audit is not designed to provide an opinion on your system of internal control, nor to identify deficiencies in internal control.

In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or disclosures. However, we will inform you of any material errors that come to our attention, and we will inform you, or the appropriate level of management, of any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential.

In making our risk assessments, we will gain an understanding of your system of internal control relevant to the preparation and fair presentation of the Borough's and Authority's financial statements in order to design audit procedures that are appropriate in the circumstances. However, our audit procedures are not designed for the purpose of expressing an opinion on the effectiveness of the Borough's and Authority's systems of internal control, and accordingly, we will express no such opinion. In accordance with our professional standards, we will communicate in writing to the appropriate level of management and those charged with governance matters concerning any significant deficiencies or material weaknesses in the systems of internal control relevant to the Borough's and Authority's financial statements that we identify during the audits.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the Borough's and Authority's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audits will not be to provide an opinion on overall compliance, and we will not express such an opinion. Management maintains the responsibility for identifying and ensuring that the Borough and Authority comply with applicable laws, regulations, contracts and other agreements.

Also, based on the audits' evidence we obtain, we will conclude whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Borough's and Authority's ability to continue as a going concern for a reasonable period of time.

As these engagements are not designed to be a fraud audit, management understands and accepts the inherent limitations of the audit services described in this agreement.

Our responsibility as auditors is, of course, limited to the periods covered by our audits and does not extend to any other periods.

Brian R Marchuck is the engagement principal for the audit services specified in this letter. His responsibilities include supervising the Firm's services performed as part of these engagements and signing or authorizing another qualified Firm representative to sign the audit reports.

### **Responsibilities of Managements and Those Charged with Governance**

As part of our engagements, we may advise you about appropriate accounting principles and their application; however, the management of the Borough acknowledges and understands that the final responsibility for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America remain with the management of the Borough and the management of the Authority acknowledges and understands that the final responsibility for the preparation and fair presentation of the financial statements in accordance with the provisions of section 4.01 of the sewer capacity and service agreement among the Borough, Authority and Warwick Township Municipal Authority date July 20, 2021, with joinder by the Township of Warwick remain with the management of the Authority.

Additionally, as part of our engagements, we may advise you about appropriate accounting principles and their application. These responsibilities include the financial statements, all accompanying information and the representations that accompany them. As such, the management of the Borough and Authority are responsible for adjusting the financial statements to correct material misstatements, including inadequate, incomplete or omitted disclosures, and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagements and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Other managements' responsibilities include maintaining adequate records, selecting and applying accounting principles and safeguarding assets.

By your signature below, you also acknowledge that the management of the Borough is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements and disclosures, and all accompanying information, that are free from material misstatement, including omissions, whether due to fraud or error. These responsibilities include the fair presentation in the financial statements of the respective financial positions of the governmental activities, business-type activities, fiduciary activities, each major fund and the aggregate remaining fund information of the Borough and the respective changes in financial positions, and where applicable cash flows, in conformity with accounting principles generally accepted in the United States of America.

Additionally, by your signature below, you also acknowledge that the management of the Authority is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements and disclosures, and all accompanying information, that are free from material misstatement, including omissions, whether due to fraud or error. These responsibilities include the fair presentation in accordance with the provisions of section 4.01 of the sewer capacity and service agreement among the Borough, Authority and Warwick Township Municipal Authority date July 20, 2021.

In addition, the managements are also responsible for having appropriate programs and controls in place to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Borough and Authority that involves management, employees who have significant roles in internal control, regulators and others where fraud could have a material impact on the financial statements or disclosures. The managements of the Borough and Authority are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Borough and/or Authority received in communications from employees, former employees, regulators or others. In addition, you are responsible for identifying and ensuring that the Borough and Authority comply with applicable laws and regulations and for taking timely and appropriate actions to remedy any fraud, illegal acts or violations of contracts and agreements. You agree that you will confirm your understanding of your responsibilities as defined in this letter to us in your representation letter.

Management of the Borough is also responsible for the preparation and fair presentation of the supplementary information in conformity with accounting principles generally accepted in the United States of America. You agree that you will confirm your understanding of the Borough's responsibility with respect to the supplementary information in your representation letter. You further agree to include our reports on the supplementary information in any document that contains and indicates that we have reported on such supplementary information. The Authority's financial statements do not contain supplementary information.

Management's responsibilities also include designating qualified individuals with the necessary expertise to be responsible and accountable for overseeing all the nonattest services we perform as part of these engagements, as well as evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for providing us with access to all information it is aware of that is relevant to the preparation and fair presentation of the financial statements and disclosures such as financial records, documentation and related information; for the accuracy and completeness of that information (including information from outside of general and subsidiary ledgers) and for informing us of events occurring or facts discovered subsequent to the dates of the financial statements that may affect them. This responsibility also includes providing us with any additional information that we may request from the managements for the purpose of the audits; as well as allowing us unrestricted access to individuals within the Borough and Authority from whom we may determine it necessary to obtain audit evidence, including access to your designated employees who will type all confirmations we request.

We may from time to time, and depending on the circumstances, use third-party service providers in serving your accounts. We may share confidential information about you with these service providers but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of the Borough's and Authority's personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information, and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. If we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service providers. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

### **Written Reports**

We expect to issue a written report upon completion of our audits of the Borough's and Authority's and financial statements. Our reports will be addressed to the Borough Council. We cannot provide assurance that an unmodified opinion will be expressed on the financial statements. Circumstances may arise in which it is necessary for us to modify our opinion, add separate sections or add emphasis-of- matters or other-matters paragraphs, decline to express opinions or withdraw from the engagements.

## Nonattest Services

As part of our engagements, we will provide nonattest services as follows:

1. We will prepare financial statements to be reviewed and approved by the managements of the Borough and Authority.
2. We will prepare the Borough's Commonwealth of Pennsylvania Department of Community and Economic Development Annual Audit and Financial Report (Form DCED-CLGS-30) to be reviewed and approved by management.
3. If needed, we will prepare the Authority's Commonwealth of Pennsylvania Department of Community and Economic Development Annual Audit and Financial Report (Form DCED-CLGS-04) to be reviewed and approved by management.
4. We will maintain the depreciation schedules related to the property and equipment to be review and approved by the management of the Borough and Authority.

Management agrees to perform the following responsibilities in connection with our provision of the nonattest services:

1. Assume all management responsibilities and make all management decisions, including approval of proposed journal entries, if any.
2. Assign **Robert "Rob" McFadden, CFM, Managing Director of Administration and Operations**, to oversee the nonattest services and to evaluate the adequacy and results of the services.
3. Accept responsibility for the results of the nonattest services.
4. Establish and maintain internal controls, including monitoring ongoing activities.

Our responsibilities and limitations in relation to the nonattest services are as follows:

1. We will perform the services in accordance with applicable professional standards.
2. The nonattest services are limited to the services outlined above. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account codings and approving journal entries.

## Other Matters

As part of our engagements, we will assist with the preparation the Borough's Commonwealth of Pennsylvania Department of Community and Economic Development Annual Audit and Financial Report (Form DCED-CLGS-30) for the years ending December 31, 2023, 2024 and 2025. If needed, we will prepare the Authority's Commonwealth of Pennsylvania Department of Community and Economic Development Annual Audit and Financial Report (Form DCED-CLGS-04) for the years ending December 31, 2023, 2024 and 2025.

Our fees for these auditing services, which include the preparation of the DCED reports and financial statements, and exclude out-of-pocket costs, preparation of the management discussion and analysis section of the Borough's financial statements, implementation of new accounting standards, presentation of the audits to the finance committee and/or Council and services outside of the scope of the audits:

Entity	Auditing services for the years ending		
	2023	2024	2025
Borough	\$ 41,500	\$ 44,500	\$ 47,500
Authority	4,000	5,000	6,000
Total***	<u>\$ 45,500</u>	<u>\$ 49,500</u>	<u>\$ 53,500</u>

\*\*\* If Brown Schultz Sheridan & Fritz exceeds the "Total" amount committed above by 10%, the Borough agrees to split (50/50) the difference above 10% with Brown Shultz Sheridan & Fritz. If this occurs, Brown Shultz Sheridan & Fritz will provide a detailed report of the time and cost.

#### Example

If during 2023, the work in progress (or WIP, which is the Brown Schultz Sheridan & Fritz staff billing rates multiplied by the total hours worked by staff level) for these services comes in at a total of \$52,750.

#### Percentage of Total\*\*\* vs WIP

	-13.74%	-10.00%
Total***	\$ 45,500	\$ 45,500
WIP	52,750	50,555
Difference	<u>\$ (7,250)</u>	<u>\$ (5,055)</u>

The Borough would be responsible for \$1,097 of additional costs:

WIP @ 13.74% over "Total***"	\$ 52,750
WIP @ 10.00% over "Total***"	50,555
Difference in WIP @ 13.74% vs 10.00%	<u>\$ 2,195</u>
<b>Borough's additional cost</b>	<b>\$ 1,097</b>
<i>Brown Schultz Sheridan &amp; Fritz's write off</i>	1,098
Difference in WIP @ 13.74% vs 10.00%	<u>\$ 2,195</u>

Additionally, the only possible out-of-pocket expenses could be for audit bank confirmations prepared electronically. The cost would be around \$39 per bank account for the year ended December 31, 2023 and future engagement letters will disclose the 2024 and 2025 costs. We will try to complete paper bank account confirmations, when permitted, to reduce this burden.



**If applicable, the cost for the implementation of GASB Statement Standards will range between \$500 through \$2,000 per entity for the year ended December 31, 2023.** Future engagement letters will disclose the 2024 and 2025 costs. **The cost to assist with the preparation of the Borough's Management Discussion and Analysis section of the financial statements will range between \$500 through \$1,000 for the Borough for 2023.** Future engagement letters will disclose the 2024 and 2025 costs. **The cost for each finance committee and/or Council presentation per entity will range between \$500 through \$1,000 for 2023.** Future engagement letters will disclose the 2024 and 2025 costs.

Additionally, the fees above exclude audits in accordance with *Government Auditing Standards* (Yellow Book) or U.S. OMB Circular A-133, Single Audit Requirements. If required, we will provide an additional engagement letter.

*Note, the Borough and Authority will be responsible for the cost of advertising the concise financial statements in any newspaper for the year ended December 31, 2023, 2024 and 2025.*

Our invoices for these fees will be rendered each month as work progresses and are due and payable within 30 days. Fees are based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audits. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. The Borough and Authority acknowledge and agree that we are not required to continue work in the event of the Borough's and Authority's failure to pay on a timely basis for services rendered as required by this engagement letter. The Borough and Authority further acknowledge and agree that in the event we stop work or withdraw from these engagements as a result of the Borough's and Authority's failure to pay on a timely basis for services rendered as required by this engagement letter, we shall not be liable for any damages that occur as a result of our ceasing to render services. Amounts not paid within 30 days from the invoice date will be subject to a late payment charge of 1.5% per month (18% per year). In accordance with our Firm policies, work may be suspended if your accounts become 30 days or more overdue and may not be resumed until your accounts are paid in full.

The following services have not been included within the scope of these audit proposals. If these services are required or requested by you, this (these) will be either billed at our standard hourly rates or a new fee will be negotiated:

- An audit in accordance with U.S. *Government Auditing Standards* (The Yellow Book) or U.S. OMB Circular A-133, Single Audit Requirements.
- Separate audits of federal, state or local grants or loans.
- Review of and preparation of financial statement disclosures for new bond issues.
- Audits of additional funds or component units not included as part of the prior years' audits but are to be included in the current years' audits.
- Assistance with the implementation, reporting and disclosure requirements of new GASB standards, if applicable.
- Additional audit procedures associated with prior period adjustments to beginning account balances.
- Additional audit procedures associated with reconciling any account balance.
- Preparation for and presentation(s) to finance committees and/or Council.

Billing rates for technical questions and other services outside of the proposed audit services will be as follows (*these billing rates have been reduced and are not the same as the actual billing rates, which is used to determine the work in progress*):

Principal:	\$310/hour
Senior Manager:	\$220/hour
Manager:	\$200/hour
Supervisor:	\$180/hour
Senior Auditor:	\$160/hour
Staff Auditor:	\$150/hour
Admin:	\$130/hour

In addition, you further agree that in the event Brown Schultz Sheridan & Fritz (BSSF) or any of its employees or agents is called as a witness or requested to provide any information whether oral, written or electronic in any judicial, quasi-judicial or administrative hearing or trial regarding information or communications that the Borough and Authority have provided to BSSF, or any documents and workpapers prepared by BSSF in accordance with the terms of these agreements, the Borough and Authority agree to pay any and all reasonable expenses including fees and costs for our time at our hourly rates, as well as any legal or other fees we incur as a result of such appearance or production of documents.

It is our policy to keep records related to these engagements for seven years. However, BSSF does not keep any original client records, so we will return those to the Borough and Authority at the completion of the services rendered under these engagements. When records are returned to the Borough and Authority, it is the Borough's and Authority's responsibility to retain and protect these records for possible future use, including potential examination by any government or regulatory agencies.

By your signature below, the Borough and Authority acknowledge and agree that upon the expiration of the seven-year period, BSSF shall be free to destroy our records related to these engagements.

With the exception of a fee dispute, if any other dispute arises among the parties hereto, the parties agree to first try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its applicable rules for resolving professional accounting and related services disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties. By our signatures below, all parties acknowledge and agree that in the event of a fee dispute, we will not be required to go through mediation to attempt to settle the fee dispute and may instead move directly to litigation to resolve such fee dispute.

Robert "Rob" McFadden, CFM, Managing Director  
of Administration and Operations

-11-

July 21, 2023

We appreciate the opportunity to be of service to the Borough and Authority and believe this letter accurately summarizes the significant terms of our engagements. If you have any questions, please let us know. If the Borough and Authority agree with the terms of our engagements as described in this letter, please sign this copy where indicated and return it to us.

Very truly yours,



Brian R Marchuck, CPA  
Principal

BRM/bo

Enclosures

RESPONSE:

This letter correctly sets forth the understanding of the Borough of Lititz and Lititz Borough Authority:

APPROVED:

---

Robert "Rob" McFadden, CFM, Managing  
Director of Administration and Operations  
Borough of Lititz

---

Date

Actual billing rates, which is used to determine the work in progress:

Principal:	\$450/hour
Senior Manager:	\$245/hour
Manager:	\$226/hour
Supervisor:	\$190/hour
Senior Auditor:	\$168/hour
Staff Auditor:	\$156/hour
Admin:	\$150/hour